

Message Text

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PAGE 01 BUENOS 03390 091915Z
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GRAIN & FEED, FATS & OILS FCA AND ERS FROM AGATT

E.O. 11652: N/A
TAGS: EAGR, AR
SUBJECT: AGRICULTURAL POLICY SPEECH & IMPLICATIONS (24-AL-8,
11AL-20,6-AL-6)

TOGAS 96/ AR 7045

1. ON MAY 3 SECRETARY OF AGRICULTURE AND LIVESTOCK MARIO CADENAS MADARIAGA GAVE AN ADDRESS OUTLINING POLICY FOR 1977-78 GRAIN AND OILSEED CROPS. KEY POINTS IN HIS ADDRESS WERE: FOR WHEAT AND OTHER GRAINS, 1977-78 SUPPORT PRICES WILL BE ESTABLISHED AT 80 PERCENT OF FOB EXPORT PRICES; 10.0 PERCENT EXPORT TAX NOW APPLICABLE TO ALL GRAIN EXPORTS (TAX TEMPORARILY LIFTED FOR WHEAT) WILL BE REMOVED FOR 1977-78 CROPS; CREDIT FACILITIES WILL BE INCREASED; AND A GREATER USE OF TECHNOLOGY WILL BE ENCOURAGED. HE ALSO INDICATED THAT OILSEED EXPORTS COULD BE FURTHER LIBERALIZED, DEPENDING UPON FUTURE LEVELS OF PRODUCTION. DR. CADENAS GAVE SPECIAL EMPHASIS TO SOYBEAN, CORN, DOUBLE CROPPING OF WHEAT-SOYBEANS GRAIN SORGHUM, SUNFLOWERSEED AND PEANUT PRODUCTION, BUT LESS IMPORTANCE TO POSSIBLE INCREASES OF BARLEY, RYE, DOUBLE CROPPING OF WHEAT-SUNFLOWERSEED, OATS,
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PAGE 02 BUENOS 03390 091915Z

BIRDSEED AND MILLET. HE EMPHASIZED THAT WHEAT PLANTINGS SHOULD BE MAINTAINED, BUT THAT RICE SHOULD BE DECREASED.

2. IMMEDIATE REACTION BY FARM GROUPS WAS MODERATELY FAVORABLE, BUT QUESTIONS WERE RAISED ON METHODOLOGY FOR DETERMINING SUPPORT PRICES POINTING OUT THAT EVENTUAL SUPPORT PRICE WILL DEPEND UPON TWO FACTORS, WORLD PRICE LEVEL AND EXCHANGE RATE. CRITICISM

CENTENS OF LACK OF MINIMUM TO WHICH PRICES CAN FALL AND LACK OF FUTURE PESO SUPPORT PRICES AGAINST WHICH FARMERS CAN NOW MAKE CALCULATIONS. AS EXPALINED BY DR. CADENAS, SUPPORT PRICES FOR GRAINS WILL BE CALCULATED AT 80 PERCENT OF PREVAILING FOB PRICE, AND IN CASE OF WHEAT, TAKING INTO ACCOUNT CHICAGO DECEMBER FUTURES PREMIUM, DECEMBER SUPPORT WOULD BE BASEDON \$80 PER TON AS OF TODAYS MARKET. HOWEVER, AS THERE IS NOW FUTURES FOR EXCHANGE, FARMERS CAN NOT PLACE THIS PRICE IN LOCAL TERMS. SECRETARY FURTHER EXPLAINED THAT OVER PAST 25 YEARS AND ON BASIS OF 6 YEAR AVERAGES, INTERNAAL WHEAT PRICES HAS BEEN FOLLOWING PERCENTAGES OF EXPORT PRICE: 50,53,67,71 AND 53. SPREAD HAS RESULTED LARGELY FROM EXPORT TAXES, DIFFERENTIAL EXCHANGE RATES AND STATE TRADING. SECRETARY SAID THAT TODAY, INTERNAL WHEAT PRICE EQUIVALENT TO 85 PERCENT OF FOB PRICE AND 15 PERCENT SPREAD RESULTS FROM HANDLING, STORAGE AND COMMISSION CHARGES PLUS SEVERAL SMALL SPECIFIC EXPORT TAXES. SECRETARY MADE POINT IN HIS ADDRESS THAT PRODUCERS WILL BE BETTER OFF SELLING IN FREE-MARKET, BUT GRAIN BOARD WILL REMAIN READY TO GUARANTEE PRODUCER A RETURN EQUIVALENT TO 80 PERCENT OF WORLD PRICE.

3. IMPLICATIONS OF NEW PRICE SUPPORT SCHEME APPEAR TO BE SEVERAL:

A) GOVERNMENT IS GUARANTEEING PRODUCERS SPREAD VIS-A-VIS EXPORT PRICE AND IS AVOIDING NEED TO PROJECT WITHER WORLD PRICE LEVELS OR FUTURE EXCHANGE RATE;

B) PRICE SUPPORT SCHEME GIVES NO PREFERENCES TO GRAIN OVER ANOTHER AND PRODUCERS MUST MAKE DECISIONS ON BASIS OF CURRENT MARKET PRICE RELATIONS;

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PAGE 03 BUENOS 03390 091915Z

C) HOWEVER, AS WHEAT CURRENTLY EXEMPTED FROM 10 PERCENT EXPORT TAX AND OTHER CROPS WILL NOT BE EXEMPTED UNTIL NEXT SEASON, PRICE OF WHEAT WILL DECLINE 10 PERCENT RELATIVE TO OTHER GRAINS NEXT SEASONS; AND

D) SCHEME WILL BE CONFUSING TO PRODUCERS, GIVES THEM NO PESO PRICE AGAINST WHICH TO MEASURE PROFITABILITY OF ONE GRAIN AGAINST NEXT OR GRAINS OVER ALTERNATIVE CROPS OR OVER LIVESTOCK AND FINALLY PROVIDES NO MINIMUM GUARANTEED PESO PRICE TO PRODUCERS AT CURRENT TIME.

4. OVERALL, GENERAL CONCLUSION IS THAT ADDRESS BY SECRETARY OF AGRICULTURE DOES LITTLE TO ALTER INTENTIONS OF FARMERS WHICH ACCORDING TO RECENT SURVEY BY CATTLEMEN'S BANK AND OTHER SURVEYS BY PRIVATE SEED FIRMS INDICATE THAT FOR 1977-78 SEASONS FARMERS ARE PLANNING TO REDUCE WHEAT PLANTINGS OVERALL, TO INCREASE SOYBEANS, WHEAT-SOYBEAN DOUBLE CROPPING, FLASEED, BARLEY, GRAIN SORGHUM AND POSSIBLY SUNFLOWERSEED. CORN PLANTINGS MAY REMAIN VIRTUALLY UNCHANGED AS SOME WHEAT LAND IS MOVED INTO CORN, BUT OTHER CORN LAND IS SHIFTED TO

SOYBEANS. BOTH INCREASED FLAXSEED AND BARLEY SOWINGS WILL COME FROM WHEAT. EXPANSION OF GRAIN SORGHUM WILL CONTINUE IN WESTERN AND NORTH-WESTERN MARGINAL AREAS, BUT SOME COULD ALSO BE SHIFTED OUT OF WHEAT. ADDITIONAL SUNFLOWER ACREAGE COULD COME IN NORTH IF WEATHER IS BETTER THIS SEASON FOR PLANTING THEN LAST. THERE IS ALSO KEEN INTEREST IN SUNFLOWER-SEED HYBRIDS, BUT SEED SUPPLIES ARE STILL LIMITED. WHETHER TOTAL ALAND AREA DEVOTED TO GRAINS AND OILSEEDS WILL BE INCREASED THIS SEASON, AS LAST, IN SOMEWHAT UNCERTAIN AT CURRENT TIME. EARLIER THIS YEAR FELT THAT CATTLEMAN MIGHT START TO BEGIN TO REBUILD HERDS AND THIS WOULD BE LIMITING FACTOR TO FURTHER EXPANSION OF CROP LAND, HOWEVER, RELATIVE CATTLE PRICES INSTEAD OF STRENGTHENING HAVE WEAKENED SINCE THEN AND AT LEAST IN SHORT-RUN, FEMALES ARE STILL BEING LIQUIDATE.

5. PREPARATION FOR PLANTING OF WINTER CROPS (WHEAT, FLAXSEED, BARLEY, OATS AND RYE) IS JUST GETTING UNDERWAY, AND HARVESTING UNCLASSIFIED

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PAGE 04 BUENOS 03390 091915Z

OF SUMMER CROPS (CORN, GRAIN SORGHUM, SOYBEAN, SUNFLOWERSEED AND COTTON) IS STILL NOT COMPLETED. MOST RECENT ESTIMATED INDICATE THAT TOTAL AREA DEDICATED TO GRAIS AND OILSEEDS DURING 1976-77 CROP SEASON WAS 21,3 MILLION HECTARES, 11 PERCENT MORE THAN FOR PREVIOUS SEASON AND PROBABLY A RECORD NUMBER OF HECTARES UNDER CULTIVATION IN ONE SEASON. TOTAL GRAIN AND OILSEED PRODUCTION WILL BE ABOUT 31.6 MILLION TONS, 33 PERCENT MORE THAN WAS PRODUCED DURING PREVIOUS SEASON AND AN ALL TIME RECORD. HOWEVER, BECAUSE YIELDS WERE NEAR RECORD FOR ALL GRAINS AND OILSEEDS THIS SEASON DUE TO RECORD MOISTURE, IT SEEMS CERTAIN THAT 1977-78 PRODUCTION VOLUME OF GRAINS AND OILSEEDS WILL DECLINE.
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